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Briefing note on macroeconomic projections for the Spanish economy (2017-2020): the Banco de España's contribution to the Eurosystem's December 2017 joint forecasting exercise

This note describes the key features of the macroeconomic projections for the Spanish economy for the period 2017-2020, published today by the Banco de España on its website (available at this [link](#)). The current projections incorporate the new information¹ that has become available since the publication of the previous projections from September, and, for the first time, the year 2020 is included in the projection horizon.

The projections envisage a **continuation of the current expansionary phase**, supported by progress made in restoring the economy's macrofinancial balance, thereby endowing it with greater shock-absorbing capacity. Nevertheless, **slower output growth is expected** as the effect of some of the expansionary drivers operating in the past wears off. In particular, the current projections factor in a neutral fiscal policy stance, instead of the expansionary stance of the recent past. They also envisage an extra moderate impact from monetary policy on agents' financing conditions, which remain comfortable. Against this backdrop, the extent of the political uncertainty surrounding Catalonia will be an additional factor in determining the course of the Spanish economy over the forecast period. In the baseline scenario it has been assumed that the level of uncertainty seen in recent months will ease in the early part of 2018.²

On balance, **it is anticipated that after growth of 3.1% this year, gross domestic product (GDP) will increase by 2.4% in 2018 and 2.1% in both 2019 and 2020**. In comparison with the [previous forecasts](#), **GDP growth has been revised downwards slightly** in 2018 and 2019 (from 2.5 % and 2.2 %, respectively), as a result of the uncertainty arising from the situation in Catalonia. The effects of this uncertainty are being partially offset by the net impact of changes in the assumptions (of these, the positive effect of the improved outlook for external markets -especially those of the euro area- outweighs the negative effect of the recent upturn in oil prices).

¹ In particular, in the current projections incorporate the changes observed between 18 September and 22 November in the technical assumptions, in the budgetary hypotheses and in the forecasts for the external setting of the economy. Moreover, the current projections exercise includes QNA data for Q3.

² This baseline scenario incorporates the impact of this heightened uncertainty, the scale and persistence of which is in line with what was foreseen in the most benign of the two scenarios considered in Box 1.1 ("The economic impact of uncertainty arising from political tensions in Catalonia") in *Financial Stability Report*, Banco de España, November 2017.

The expansion of output will continue to be underpinned by domestic demand, which, however, will foreseeably slow in the coming years. Meanwhile, **net external demand will continue to make a positive**, albeit slightly declining, **contribution**, throughout the projection time horizon.

The high growth rates of **employment** seen in recent years are expected to moderate as the projection period progresses, in consonance with the projected deceleration of activity. The sustained rise in employment will mean that **the unemployment rate will decrease further** to stand at around 11% at the end of 2020.

Turning to inflation, a slowdown is expected in the short term in the consumer price index (CPI) as a result of the disappearance of base effects and the rise in energy prices seen a year earlier. **From spring 2018**, consumer price dynamics will foreseeably be determined by the underlying component, for which a **gradual recovery** is projected against a background of persistence of the cyclical upturn. In average annual terms, after an increase of **2% in 2017**, **the CPI is projected to grow by 1.5% and 1.4% in 2018 and 2019, respectively, before accelerating to 1.7% in 2020**. In comparison with September projections, **overall inflation is revised upward in 2017 and 2018** as a result of the higher expected oil prices, **and downward in 2019**, due to the somewhat less buoyant behaviour of the underlying component.

In the external arena, **the GDP growth risks surrounding the baseline scenario** are shaped, in the short run, by the economic information available for the euro area, which suggests that activity may grow faster than envisaged. In the longer term, various sources of uncertainty subsist which are linked to the high valuations reached by some financial assets, the ability of the Chinese authorities to address the imbalances of their economy and the consequences of the United Kingdom's exit from the European Union. In the domestic sphere, the uncertainty over Catalonia persists. The final impact of this risk factor for the overall Spanish economy will depend on the magnitude and persistence of the tensions. A slackening of the degree of tension such as has become apparent in recent weeks could lead to a scenario of higher output growth. On the contrary, a hypothetical resurgence in tensions in the coming months might lead to a more pronounced impact on private agents' spending decisions.

Regarding inflation, the growing use of factors of production may not crystallise in an increase in underlying inflation of the expected sharpness, against a background of uncertainty over the volume of idle resources in the economy and over the size of the price effect of activity.